Mergers and Acquisitions:

The current state of the debate.

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I hereby declare that the work submitted is mine and that where I have made use of another's work, I have attributed the source(s) according to the Regulations set in the Student's Handbook.

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To my beloved mother Kyriaki

Abstract

Many researchers and academics have investigated the phenomenon of mergers and acquisitions. The motives which lie behind the confirmed deals of such transactions vary. This thesis scrutinizes the role of financial and managerial motives under which organizations decide to proceed to mergers and acquisitions and illustrates how theory is applied to the real case study of the merger between Kraft and Heinz. This study is motivated by two research questions: the first one is, whether mergers and acquisitions create value for organizations and if yes, to what extent? The second one pertains to the case study of Kraft Heinz and explores both the motives of the organizations and the causation why the particular organization still struggles for growth.

This thesis advances the understanding of its reader with a clear illustration of what mergers and acquisitions are. It addresses a gap in the literature according to the level up to which mergers and acquisitions - the most common cause for massive hires or redundancies accordingly – affect the (un)employment rates of countries, has not been investigated yet. The findings of the research, as well as the case study of merger between Kraft and Heinz indicate that success on mergers and acquisitions is more complex and harder to gain than previously assumed.

Finally, the conclusion is that the vast majority of M&A cases will struggle until they manage to achieve the desirable growth – not all of them will achieve it. In this respect, recommendations are offered according to which the buyer organization must carefully examine the target organization as far as the management, financials, operations of the latter are concerned. Recommendations do not guarantee success of such a transaction, but they are presented to assist organizations in establishing favorable opportunities for themselves.

Keywords: mergers and acquisitions, financial, managerial, value.

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List of Abbreviations

FDI	Foreign direct investments
M&A	Mergers and Acquisitions
ROA	Return on Assets
ROE	Return on Equity
ROS	Return on Sales
WWI	World War I
LBO	Leveraged Buy-Out
BoD	Board of Directors
P/E	Price to Earnings

Introduction

Mergers and acquisitions constitute a common research topic; after decades of intensive research it is assumed that most of the motives for mergers and acquisitions are known. They form one of the most attractive business strategies and subsequently they are adopted and utilized among organizations today (Vazirani, 2015). They are defined as a combination of assets, cultural values, and management practices of two separate organizations to form a new entity (Javidan, et al., 2004). Depending on the size of the companies in question, such deals worth many millions (sometimes billions) and are often reported on the financial and business pages.

Although, theory appears to be promising in regards with the objectives which organizations pursue through the announcements of such deals, in almost all cases mergers and acquisitions fail to fulfill their initial expectations. Problems must inevitably occur when two companies are combined. Although problems can be forecasted, anticipated and minimized, they always affect the consolidated company's new formed strengths and weaknesses.

This thesis's contribution is to inform the reader about the corporations' restructurings through the announcement of mergers and acquisitions. The structure followed provides the reader with spherical knowledge about M&As. Moreover, data relevant to M&As are presented and useful conclusions are drawn. In addition, the case study of one of the most important – if not the most – merger in the recent years is analyzed; that of Kraft Heinz's in 2015. The case study elaborates on the motives of Kraft and Heinz merger and explains the reason why this transaction has failed to meet its expectations so far. The conclusion drawn is that M&As constitute a global trend via which organizations pursue growth, even though a big majority of cases fail to achieve it. In this respect, this thesis provides its reader with recommended policies which aim to decrease the chance of failure for organizations in their efforts to secure growth and profitability.

1. Review of Mergers and Acquisitions

Mergers and acquisitions are often lumped together in literature and used interchangeably. However, there are some fundamental differences between the two. When a company purchases another company – the target – and thereby acquires the assets of the target company, it is referred to as an acquisition. On the other hand, a merger is when two companies are combined to create an entirely new company. An acquisition is the most common of the two. Nevertheless, as noted, the terms are used synonymously, and merger maybe be more palatable to the customer or acquired company (Gaughan, 2007).

Mergers and acquisitions are supposed to create new, stronger, more powerful organizations. However, history teaches us that such combinations often fall far short of expectations. In the context of this dissertation mergers and acquisitions will be examined through a financial and managerial perspective.

1.1 Definitions

According to Gaughan, (2007), DePamphilis, (2003), Scott (2003), a merger is a combination of two organizations in which only one organization survives, and the other merged corporation goes out of existence. In a merger, the acquiring company assumes the assets and liabilities of the merged company. Furthermore, despite the fact that the buying firm may be a sufficiently different organization after the merger, it sustains its original identity (Tamosiuniene & Duksaite, 2011). An acquisition occurs when an organization takes a controlling ownership interest in another firm, a legal subsidiary of another firm, or selected assets of firm (i.e. a manufacturing site) (DePamphilis, 2003).

As aforementioned, on the surface, the distinction in meaning of merger and acquisition may not really matter, since the final net outcome is often the same: two organizations (or more) which had different ownership are now operating under a new consolidated roof, to pursue and retain some strategic or financial objectives. Hence, the strategic, financial, tax, managerial and cultural impact of a deal between two organizations may fluctuate, based on the type of transaction (Sherman & Hart, 2006).

1.2 Theoretical background on the importance of M&As

Mergers and acquisitions have proven to be a significant and increasingly popular means of organizations towards achieving diversity, expansion and growth (Nahavandi & Malekzadeh, 1988). The effectiveness of such a deal is dependent upon extensive and thorough planning and meticulous implementation (Blake & Mouton, 1984), (Jemison & Sitkin, 1986), (Salter & Weinhold, 1979). Literature has focused on financial fit between the acquirer and acquired firms, though some research which has dealt with the integration of management control systems.

Over the years, researchers and practitioners have conducted several studies to understand and highlight the significance of adopting M&A strategy for organizations (Krishnakumar & Sethi, 2012). The motivation behind this research has been to comprehend whether the perceived benefits from this strategy have accrued or not. It has been attempted to study whether these mergers and acquisitions are value enhancing or destructive strategies for the acquiring organization.

Foreign direct investments (FDIs) have considerably been developed during the recent period. The statistics provided indicate that an increasing number of FDIs take the form of cross-border mergers and acquisitions (Chalencon & Mayrhofer, 2018). A significant portion of mergers and acquisitions' dealerships take place in emergent economies. Subsequently, the growing interest of multinational organizations for M&As raises an abundance of questions (Malhotra & Gaur, 2014). Which companies are particularly active in establishing M&As? Which are preferred destinations chosen for these external growth strategies? How do financial markets react to these trends? Do M&As in emerging countries create similar value to operations in mature countries?

1.3 Host Country Impact on Mergers and Acquisitions

There are several factors upon what sets winning corporate combinations apart from the rest. Recent empirical studies address the importance of host country characteristics and explain how and in what depth they affect M&A decisions (Greve & Zhang, 2017). For instance, (Uddin & Boateng, 2011) demonstrate that macro-economic factors largely determine the level of cross-border M&A outflows and inflows. Moreover, (Gaffney, et al., 2016) add that economic factors also affect the level of equity participation in cross-border acquisitions. Furthermore, relevant literature suggests that institutional, national and cultural characteristics affect the choice between minority and full or majority of acquisitions at a great extent (Contractor, et al., 2014). Hence, there are questions which arise. Across what disciplines does a host country affect mergers and acquisitions? In what extent do host countries affect mergers and acquisitions? Can they potentially be determinant over their success or failure?

1.4 Creating Value with Mergers and Acquisitions

A key issue of extensive planning prior to a M&A is whether the transaction is likely to create value for the shareholders and the acquiring organization (Hazelkorn & Zenner, 2004). Despite the fact that, mergers and acquisitions constitute a popular strategy, only a minority of firms have achieved success in applying mergers and acquisitions (M&A). In essence, many acquisitions are unsuccessful, some spectacularly so (Faulkner, et al., 2012). Several studies have shown that, on average, the value created by M&As varies closely around zero (King, et al., 2004). In recent years, there has been significant research on mergers and acquisitions, nonetheless more is needed to assist strategists which contribute beneficially to this strategy (Hitt, et al., 2005). According to Bruner (2004) ''value'' can be defined in three possible outcomes:

1. *Value conserved.* In this outcome investment returns are equal to the required returns. Shareholders receive exactly what they required. This means that the investment has a net present value (NPV) of zero; it breaks even in present value terms. It does not constitute an investment failure. Practically, if the investor requires a return of 15 percent on his or her investment, and he gets it, the investment will double in five years. Under this case, investor's wealth grows at the rate the investor requires. Hence, investor should be satisfied since he or she earns normal returns.
2. *Value created.* This happens when the return on investment exceeds the required return. This category bears a positive net present value; the investor's wealth grows higher than required. Considering the increasing competition in markets in a global scale, it is difficult to earn above-normal returns and even more difficult to earn them on a sustained basis over time. Hence, in this case investors must be really happy.
3. *Value destroyed.* In this scenario, investment returns are lower than expected. Investor should have conducted a more thoroughly executed investment in another opportunity. Hence, investor is justifiably unsatisfied in this case.

One aspect of importance is whether the stock market reacts positively to the transaction in the short run and, more importantly, whether the acquirer's stock outperforms its competitors in the long run. In an effort to capture this behavior, several researchers have calculated the excess stock return over several time horizons. The excess stock return refers to the stock's actual return adjusted for marketwise movements and thus, it measures the extent to which a stock outperformed the market at the time of the M&A announcement.

Another key attribute, determinant to a M&A success, is the employee retention. Employee retention is necessary to achieve the projected gains from the recently merged organization (Martin, et al., 2017). In addition, the communication of clear goals between the employees and the acquiring firm is appropriate for M&A success (Graebner, 2004). The loss of employees during the process of a M&A has been cited as a reason for failure (Buono & Bowditch, 1989). Retaining key employees who do understand the routines and the mechanisms of value creation, is an important asset of a merged organization towards producing products or services, that fulfill customer needs and, are better than the competitors' (Sirmon, et al., 2007). Upon being successful at value creation, a sustainable competitive advantage can be created and retained.

Multiple M&As constitute organizations' expensive mistakes (Martin, 2016). Hereby, the concept is that companies seek for ways to obtain values themselves. Accordingly, other organizations do so. In this respect, it happens to be the case that more than one organization often spots opportunity in a company and consequently its value is lost in a bidding war.

Several studies indicate that M&As lead to controversial results: some of them create value, while their risk of failure is calculated at the vicinity of 50 percent (Schoenberg, 2006), (Vazirani, 2012). The value creation of such external growth strategies is captured by the reaction of financial markets at the announcement of a merger or acquisition operation (Humphery-Jenner, 2014), (Very, 2011). This figure demonstrates how financial analysts perceive the performance of M&As and how the value creation for the shareholders of acquiring companies is estimated (Dittmar & Thakor, 2007).

When executives are asked to comment on their own companies' acquisitions, most of them reply that their acquisitions do create value for shareholders and that the company's strategic objectives have been met. The statistics, on the other hand, indicate that a large portion of mergers and acquisitions – one half or more – fail to live up to expectations (Daniels, et al., 2007).

According to Krug (2009) there are numerous methods to evaluate success of M&As: (a) Analysis of stock market returns to target and acquiring company shareholders following the merger announcement. Empirical studies of stock market returns show that the stock value of target company shareholders increases significantly – an average of 30% over market returns – exactly after the M&A announcement. (b) Analysis of target company performance after the M&A using accounting measures such as return on assets (ROA). Accounting measures of performance such as ROA, return on equity (ROE), and return on sales (ROS) are generally not improved at a great extent in target companies following a M&A (Datta, et al., 1992), (King, et al., 2004) (c) surveys of executives involved in M&As, and (d) case studies of individual acquisitions.

1.5 Conclusion

It is not absolutely clear whether M&As do create value. That creates an uncertainty state, according to which it is not cleat under which circumstances M&As can potentially be beneficial on both a corporate and shareholder concept. Bruner (2004) analyzed the results of 54 studies; of these, twenty-two studies (40,7%) reported negative returns to shareholders. Thirty-two studies (59,3%) reported positive returns. That concludes to the fact that returns on investments are essentially zero (shareholders earn required returns, but no more). Thus, the expectation of synergies that arise from the confirmation of mergers and acquisitions are not realized in most of the acquisitions. This means that shareholders do not receive higher than normal from holding stock in acquiring companies that grow through acquisition (Krug, 2009). Research suggests that when faced with the choice of receiving cash or stock in an acquisition, target company shareholders would be better off taking cash. This is justified on the basis that continuing to hold equity in the acquiring company will produce insignificant or even negative returns compared to the rest of the market. Based on this chapter there are questions raised: Can shareholders spot a successful M&A a priori? In what actions can they proceed to maximize their returns through the confirmation of M&A deals? What defines a successful M&A which will maximize the created value?

2. Motives for Mergers and Acquisitions

Without any doubt, today we experience a time in history of significant economic change. Mergers and acquisitions have become a tool in organizations' hands, implemented by thousands of them worldwide, in an effort to achieve financial growth. Being shareholder value oriented, companies do not only form new economic, social and cultural environment, but also enable powerful companies grow faster than competitors, as well as provide entrepreneurs rewards for their efforts, ensuring weaker companies are more quickly swallowed, or worse, become irrelevant through exclusion. This chapter highlights the importance of M&As in today's economy, focuses on their strategic motives and their determinants. Moreover, it addresses the advantages of M&A deals and underline their features. Apart from that, it also presents some of their challenges and potential disadvantages.

2.1 Motives behind decision to participate in M&A deals

The interdependence of markets for various products and services (globalization), as well as the increased competition in a global scale, are amongst the reasons why we live in a time of significant changes. Subsequently, many organizations expand their reach and grow.

2.1.1 Growth as a reason for Mergers and Acquisitions

International operations allow organizations to pursue highly growing opportunities (Danbolt & Maciver, 2012). Companies' investigation to expand are faced with a choice between internal and organic growth and growth through M&As (Gaughan, 2011). Several studies indicate that organizations can increase these opportunities when targets are located in emerging markets (Xia, et al., 2008).

Growth can be categorized in two options: internal or organic growth (e.g. hiring additional personnel, developing new products or services, geographical expanding) which, in essence, is a very time and strength consuming option; and inorganic growth (e.g. acquisition of or merger with another firm, often pursued to gain access to a new product line, customer segment or geographical region) or by external means (e.g. franchising, joint ventures, strategic alliances or the appointment of overseas distributors, which are an alternative to help companies growing to mergers and acquisitions as a growth engine) (Tamosiuniene & Duksaite, 2011).

In response to the good possibilities of growth prospects, mergers and acquisitions, just like internal investments, are the methods for companies to increase their capital base (Andrade & Stafford, 2004).

Organizations may attempt to achieve growth within their own industry or they may approach growth outside their business category, which means diversification. Diversification has been a controversial topic in finance. Assuming that a company seeks to expand to another geographic region, pursuing M&A to facilitate growth is a favorable option. Geographic region can potentially refer to expansion within the same country (on a different part of it) or to other nations/regions (i.e. when a Greek firm seeks to expand into America). Occasionally, it is more efficient and less risky to expand via M&As. Considering organizations' plans for international expansion, many characteristics of the host-country must be met in order to achieve the desired growth. The organization needs to be aware of all the nuances of the new market and hence, recruit the appropriate personnel, bearing in mind that it also has to overcome hurdles connected to language, culture, local ethics and behaviors. In this occasion, internal expansion may be much slower and difficult and be proved to be costly, as well as inefficient in the end.

In this context, there are certain variables which an organization must consider in striking the proper balance between organic growth (build) versus mergers and acquisitions (Sherman & Hart, 2006). These include:

- The competitiveness, fragmentation and pace of marketplace and industry;
- The access to and cost of capital;
- The specific capabilities of management and advisory/consulting teams;
- The potential to grow and strengthen current core competencies;
- The possession of volatile and loyal distribution channels and customer base;
- The degree to which speed to market and scale are critical in business (including typical customer acquisition costs and timeframes);
- The level at which organization operates within a regulated industry.

2.1.2 Synergy as a reason for Mergers and Acquisitions

The term synergy derives from and ancient Greek word meaning to cooperate or to work together and it is often associated with the physical sciences rather than with economics of finance. Synergy is the concept that the value and performance of two companies combined will be greater than the sum of the separate individual parts. Synergy effect has been named as a major motive to initiate the process of M&A (Cirjevskis, 2009). Simply stated, it means that synergy is coordinated with the phenomenon of 2+2=5. In mergers, this is translated into the ability of a corporate combination to be more profitable than the individual parts of the firms that were combined. In addition, some researchers exercise synergy as within a broader spectrum and include the elimination of inefficient management by installing the more capable management of the acquiring firm (Asquith, 1983), (Bradley, et al., 1983).

There are two main types of synergies (DePamphilis, 2003):

- Financial synergy, which refers to the impact of mergers and acquisitions on the cost of capital of the acquiring firm or the newly formed firm resulting from merger or acquisition. On a theoretical base, the cost of capital could be reduced if the merged firms have uncorrelated cash flows, realize financial economies of scale or result in a better matching of investment opportunities with internally generated funds.
- Operating synergy, which comprises of: economies of scale (or the spreading of fixed costs, such as depreciation of equipment and amortization of capitalized software; normal maintenance spending; Obligations such as interest expense, lease payments, and union, customer and vendor contracts; and taxes, of over increasing production levels) and economies of scope (which refers to using a specific set or skills or an asset currently employed in producing a specific product or service to produce related products or services).

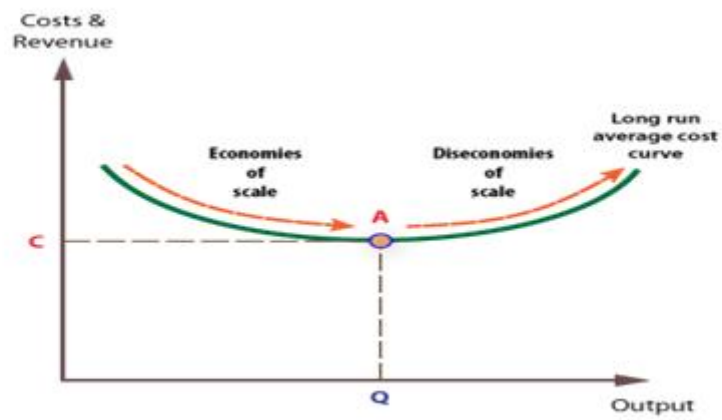


Figure 2-1Economies and Diseconomies of Scale

Source: economicsonline.co.uk

2.1.3 Managerial goals as a reason for mergers and acquisitions

In this particular chapter, various ways of mergers and acquisitions will be correlated with specific managerial goals.

Cluster	*Objectives*	*Goals*
1 Horizontal	Exploit economies of scale and scope	• Transfer acquirers' expertise into target company • Create economies of scale by expanding capacity • Acquire target company expertise
2 Vertical	Reduce dependence on suppliers and buyers	• Exploit managerial expertise to reduce firm risk and costs • Utilize interlocking qualities of target firm • Reduce supplier risk and improve efficiencies
3 Concentric	Expand product lines and markets	• Increase market share • Diversify product lines • Acquire target's marketing capacities • Broaden firm's customer base • Expand capacity
4 Diversification	Enter new business	• Utilize surplus cash flow • Reduce risk and cost of entering new industry • Fulfill personal vision of acquirer's CEO
5 Conglomerate	Maximize and utilize financial capabilities	• Promote visibility with investors • Utilize financial strength of acquirer • Decrease earnings cyclicality • Divest assets of target company

Table 2-1 Managerial Goals in Mergers and Acquisitions

Source: (Walter & Barney, 1990)

In the case of cluster 1, economies of scale and scope are created by transferring skills, assets, or both in a bidirectional manner. The process of transferring skills is of significant importance. Good communication is essential to any successful merger and acquisition. During mergers and acquisitions employees face the big challenge of uncertainty and consequently, organizations must alleviate the stress by taking a proactive stance through a communication plan (Vazirani & Mohopatra, 2012). It is well accepted that, communication is the key tool within any process of chance, especially merging two organizational cultures (Schweiger & DiNisi, 1991). This transfer requires that some assets to be consolidated in order to create a lower cost structure. Subsequently, the acquisition will underline terminations of executive staff who are associated with the redundant assets. In some cases, target company executives are key to efficiency creation, hence their retention after the acquisition is critical to merger success. Likewise, when acquiring company's executives possess superior resources and capabilities, termination of redundant target company executives, except for direct cost cuts, is a key to acquisition success.

In Cluster 2, acquisitions are used to either reduce risk and cost in value-chain relationships or improve the efficiency of value-chain transfers. For instance, an organization may acquire a supplier that is affecting the firm's profit margin by frequently raising prices. Firms may also acquire a supplier to guarantee the supply of components and decrease the risk of supply disruptions. In the latter case, a firm may acquire a supplier to integrate it with its production operations, in order to improve product functionality or reliability. For example, Caterpillar is a highly integrated manufacturer of earth-moving equipment, producing almost all components necessary to assemble its equipment in-house. Vertical integration increases costs; however, it also gives Caterpillar greater control over product functionality and reliability. Therefore, higher integration costs are more than offset by Caterpillar's ability to charge premium prices for the superior reliability and functionality of its equipment.

The goals listed in Cluster 3 emphasize expansion of the firm's existing products and markets. Diversification is not a goal in this objective category. Firms acquire other firms as a means of expanding their current product lines and markets, increasing market share and competitive position, and enhancing the ability to serve customers within their industry. They are seeing the need to spread the investment risk by establishing multi-product supply facilities, which in turn adds the advantage of flexible production lines to meet changing market demands (Nagurney, et al., 2010). Firms may be targeted for acquisition because they possess marketing and distribution capabilities that can help expand another firm's existing products into new market segments. Under such circumstances, target executives may act by helping the acquirer establish a strong competitive position in the target firm's market.

Cluster 4 involves diversification into new products or industries. Research shows that a combination of two firms can assist the acquirer to establish better chances of entering a business more readily (Bruner, 2004). In many cases, organizations invest excess cash flow generated from a strong competitive position within their existing product line to acquisitions for reasons other than to increase firm growth or to improve economic efficiencies. Instead, firms attempt to benefit from influencing their stock price or reducing earnings variability through diversification of their asset base.

That concludes to the fact that investments may not always be targeting for obvious, short-term outcomes; however, they focus on the long-term aspect of an organization's plan for sustainability.

2.2 Considerations underlying successful M&A

In the context of this dissertation, strategic and financial considerations will be taken into account.

2.2.1 Strategic Considerations

The underlying success of a M&A depends on the robustness of the strategy that follows the acquisition. This kind of strategy defines and affects the ability of managers to create value. If this strategy is flawed, it results in the situation where management implementation ultimately erodes shareholder value. If it is inherently sound, such implementation does effectively enhance this value. Communication through every stage of an ongoing M&A is of crucial importance. Occasionally, managers form M&A strategy with insufficient knowledge. Subsequently, they communicate ineffectively with stakeholders, encounter serious obstacles in the way implementation which are not correlated to the desired goal of the M&A and their strategic decisions frequently misstate shareholders value. From one point of view, such misstatements translate into an overestimation of revenue growth, profit margins, return on investment and total company value. Retrospectively, they end up in gross mispricing of the deal.

From a managerial and strategy perspective, companies must seek for decisions which are in direct accordance with their long-term goals and objectives. Under such circumstances, there are multiple questions to stimulate reader's thoughts. What type of an acquisition should be pursued and what is the organization fit between the firms? Are the global, social, competitive contexts, in which the deal occurs, appropriately assessed? Assess what environmental drivers incentivize M&A activity – is the deal necessary and timely? Will the designed integration strategy be proved to be fruitful? How do strategic decisions of managers affect shareholders value? Will the announcement of the M&A end up in forming an important competitive advantage?

2.2.2 Financial Considerations

Concluding, from a financial perspective, one must bear in mind that M&A announcements gains' may be rational in terms of short-terms business goals, however irrational in terms of long-term economic effect. Moreover, in a capitalistically operating world, it is not likely that executives act as guardians to public interest, especially when shareholder wealth is at stake. Nonetheless, in an effort to achieve creation of social wealth, this interest must be safeguarded. Subsequently, multiple questions arise: Are the deal's financial drivers ensured to be linked to the deal strategy? Are the value intangibles properly stated? How accurate is the forecasting system of an organization that is connected with the project of future cash flows? Can this lead to success or failure of a M&A? As there is interaction between managers and financial performance, can managerial overconfidence and hubris have impact in financial terms?

3. The evolution of M&As

The third chapter of dissertation deals with secondary data. The reader will be provided with solid knowledge of completed M&A transactions in the past, correlated with trends known as ''waves''. In addition, there will be reported historically large M&A's dealerships. Finally, a research gap will be identified as to how M&As affect (un)employment rates.

3.1 History of Mergers

The history of economics has reflected merger waves. During times, mergers and acquisitions have been characterized by intense activity, following a period of reduced transactions amongst organizations (Vazirani, 2015). Researching the M&A waves has been significant since over 50% of the past century's transactions took place in merger and acquisition waves (Stearns & Allan, 1996). Both historians and M&A specialists have identified M&As in patterns. More specifically, they have recorded a number of waves characterized by intensified M&A activity. A plausible question in this chapter could be: What causes merger waves?

Research has indicated that mergers and acquisitions tend to take place in periods of shifting economic regulations, and technological shocks (Mitchell & Mulherin, 1996). As far as economic regulations are concerned, elimination of regulatory barriers may enhance and favor corporate combinations. For instance, changes in U.S banking laws that suspended the prevention of banks from crossing state lines or entering other industries. Technological changes are able to arise new opportunities and create new industries, which can be a reason for increasing dealerships amongst firms (Harford, 2005). Periods of stock exchange euphoria can itself provoke a wave (Vancea, 2012). Empirical studies have proved correlation between evolution of stock exchange markets and merger and acquisition activity. Finally, there is a significant reduce of the M&A activity after the waves, when transactions tend to return at their pre-wave levels (Carow, et al., 2004) (McNamara, et al., 2008).

In the context of this dissertation, the categorization of M&A waves that Gaughan (2011) suggests will be used. Due to the fact that authors and researchers identify M&A waves with some slight years' interval differences, there may be confusion.

3.1.1 First Wave, 1897 – 1904

The first wave is observed during 1897 – 1904. It is known as the Great Merger Wave (Faulkner, et al., 2012). This period's economic expansion happened right after the big recession of 1883 (Gregoriou & Renneboog, 2007). It was characterized as the wave which based its existence upon changes in technology, economic expansion, new state legislation, and the development of industrial stock exchanges (Martynova & Renneboog, 2008). This wave mainly involved mining and manufacturing industries. Despite this fact, certain industries clearly demonstrated higher incidence of merger activity (Nelson, 1959). The greatest movement during this period was spotted in dealerships amongst enterprises belonging in the same industry, thus establishing horizontal operations. This period of economic flourish ends due to the beginning of WWI.

Year	*Number of Mergers*
1897	69
1898	303
1899	1208
1900	340
1901	423
1902	379
1903	142
1904	79

Table 3-1 Mergers, 1897 – 1904

Source: Merril Lynch, Business Brokerage and Valuation, Mergerstat Review, 1989

Based on the previous table, we extract the following figure.

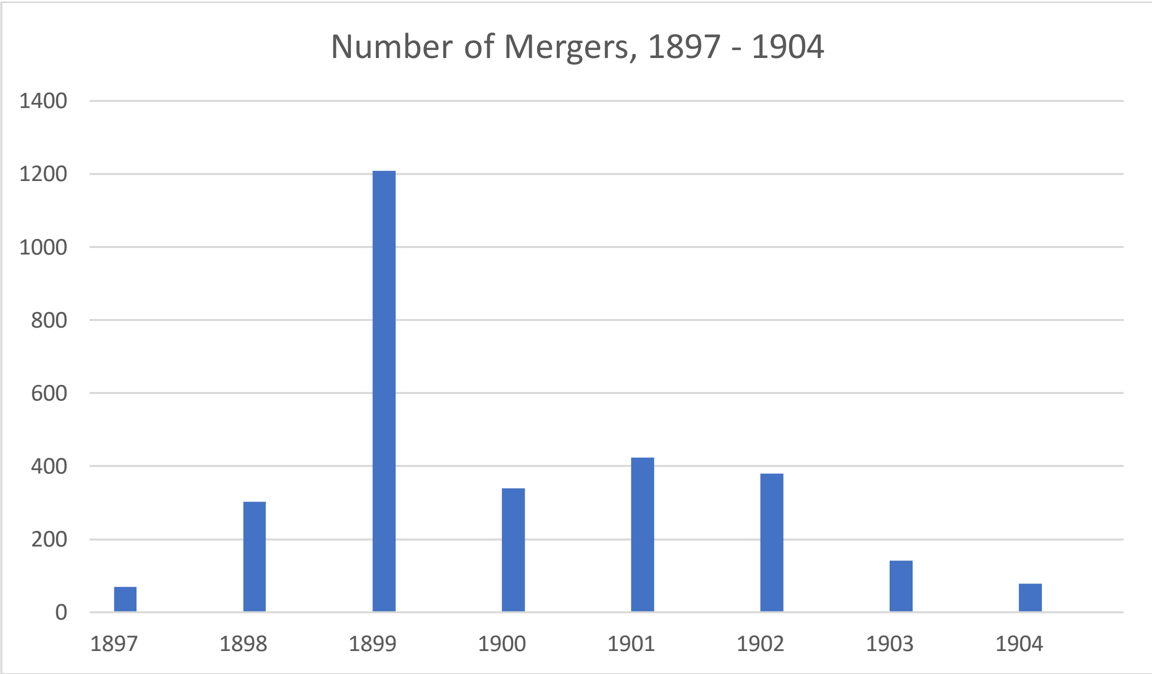


Figure 3-1 Mergers of the First Wave, 1897 – 1904

It is plausible to examine the percentages of the different type of mergers to realize the characteristics of this wave.

Type of Merger	*Percentage* (%)
Horizontal	78.3
Vertical	12
Horizontal and Vertical	9.7
Total	100

Table 3-2 Types of Mergers, 1897 – 1904

Source: Neil Fligstein, The Transformation of Corporate Control (Cambridge, MA: Harvard University Press, 1990), p. 72

Based on the table above, we extract the following pie chart.

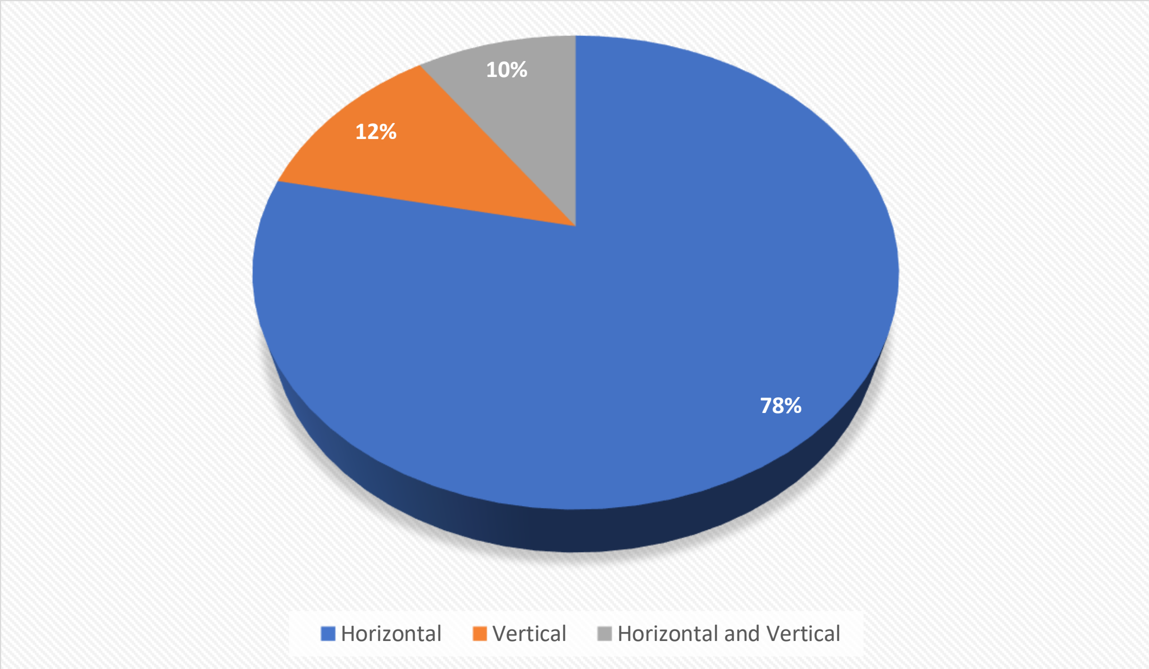


Figure 3-2 Mergers of the First Wave by Type

3.1.2 Second Wave, 1916 – 1929

The M&A activity during this period had been a result of the entry of the United States into WWI and the post-war economic boom. Unlike the first, the period of second merger wave was characterized by more vertical merger than horizontal ones. The second wave was most noteworthy for major automobile manufacturers. For instance, the famous automobile maker Ford was integrated from finished cars to steel mills, rail roads to iron and coal mines (Lipton, 2006). Research has found that while organizations gained abnormal returns of 15%, these positive effects were not reflected by their shareholders who did not receive positive abnormal returns (Leeth & Borg, 2002). George Stigler, the late Nobel prize-winning economist and former professor, contrasted the first and second merger waves as ''merging for monopoly'' versus ''merging for oligopoly''. This particular wave ended with the stock market crash of 1929 and the great depression.

3.1.3 Third Wave, 1965 – 1969

The third M&A wave featured a historically high level of activity (Gaughan, 2011). This was brought about in part by a booming economy. This period was characterized by the appearance of financial engineering and conglomeration (unrelated diversification). In contrast with the first two waves that took place in the U.S., the third wave expanded in the European region (Faulkner, et al., 2012). During this period - known as conglomerate merger period, it was a common phenomenon for relatively smaller organizations to acquire larger. A flourishing stock market and the longest period of undistracted growth in history of the United States to that time resulted in record price-to-earnings (P/E) ratios. Companies with high P/E ratios would often acquire firms with lower P/E and increase the EPS (earnings per share) of the combined companies. That subsequently boosted the boosted the share price of the consolidated companies. The decline of conglomerates may be first traced to the announcement of Litton Industries in 1968 that its quarterly earnings declined for the first time after 14 years (Stanley & Brown, 1972). When the stock market fell in 1969, the P/E game could no longer be applied.

Years	*Number of Mergers*
1963	*1361*
1964	*1950*
1965	2125
1966	2377
1967	2975
1968	4462
1969	6107
1970	5152

Table 3-3 Third Merger Wave, 1965-1969

Source: Merril Lynch, Business Brokerage and Valuation, Mergerstat Review, 1989

Based on the table above, we extract the following figure.

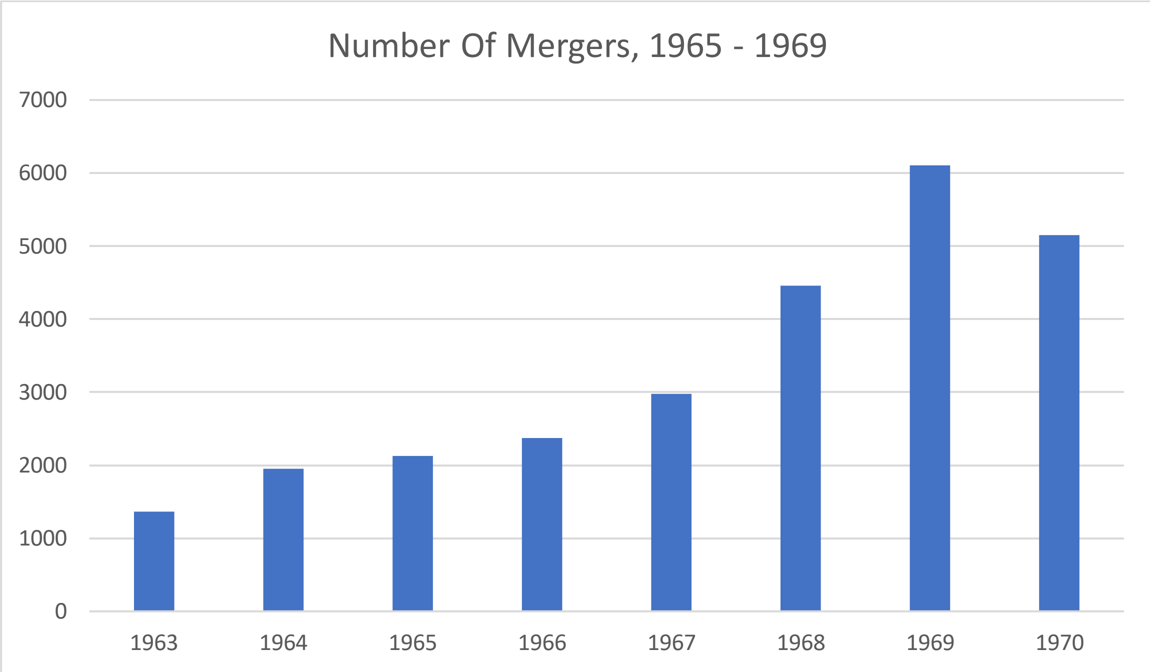


Figure 3-3 Mergers of the Third Wave, 1965 – 1969. The third merger wave peaked in 1969.

3.1.4 Fourth Wave, 1984 – 1989

The downward trend in 1970s, as far as M&As are concerned, was followed by a period of increased M&A activity. The unique characteristic of this period's wave is the significant role of hostile mergers (Gaughan, 2011). More specifically, the 1980s had been a decade to witness the breakup of many major conglomerates and the proliferation of financial buyers using the previouly mentioned hostile takeover, as well as the leveraged buyout (LBO) as their main acquisition strategies (Ravenscraft, 1987). The condition under which a takeover is considered friendly or hostile depends on the reaction of the target company's board of directors (BOD). If the board of directors approves the takeover, it is considered friendly; on the contrary the takeover is considered deemed hostile if the board is opposed. The fourth wave has become history with the relatiely mild recession in 1990. In addition to the overall slowdown of the market, another fact that negatively contributed to the end of the fourth merger was the collapse of the junk market bond market, which had provided the financing for many of the LBOs of the period. In the next page, we see the number of mergers and the total value paid in dollars in the period 1970 – 1989.

Years	*Mergers*	*Total Dollar Value Paid*
1970	5152	16414,9
1971	4608	12619,3
1972	4801	16680,5
1973	4040	16664,5
1974	2861	12465,6
1975	2297	11796,4
1976	2276	20029,5
1977	2224	21937,1
1978	2106	34180,4
1979	2128	43535,1
1980	1889	44345,7
1981	2395	82617,6
1982	2346	53754,5
1983	2533	73080,5
1984	2543	122223,7
1985	3001	179767,5
1986	3336	173136,9
1987	2032	173136,9
1988	2258	246875,1
1989	2366	221085,1

Table 3-4 Merger and Acquisitions Transactions, 1970 – 1989

Source: Merril Lynch, Business Brokerage and Valuation, Mergerstat Review, 1989.

Based on the table above, we extract the next two figures in which we visualize the number of mergers and the dollars paid for them on a yearly basis.

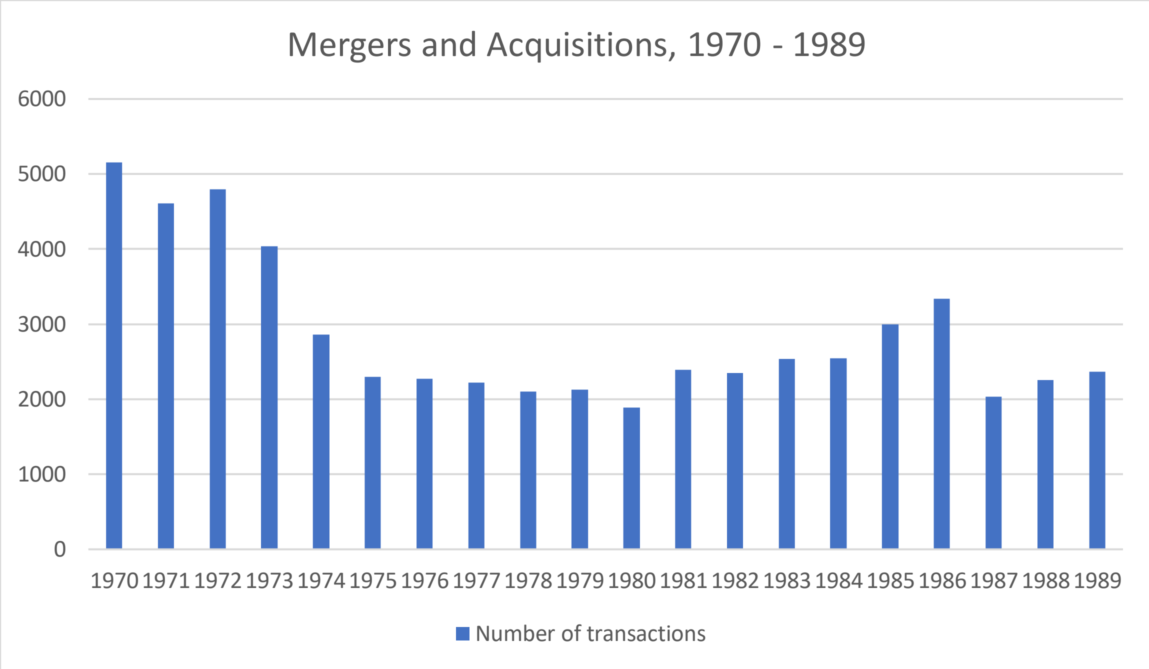


Figure 3-4 Mergers and Acquisitions, 1970 – 1989

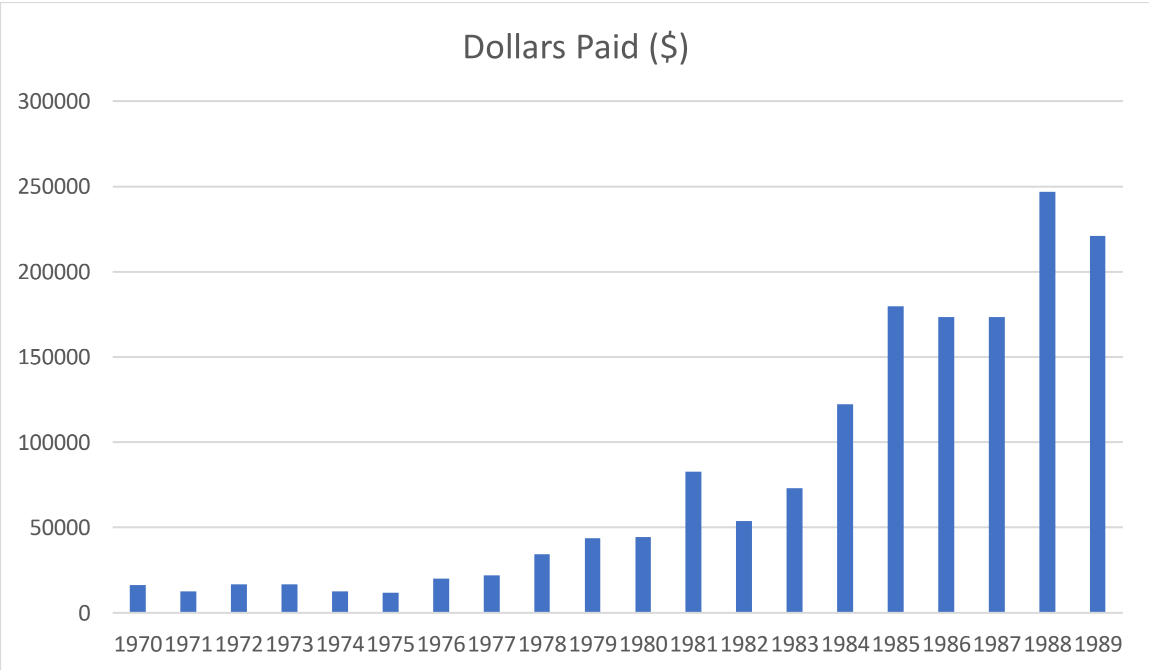
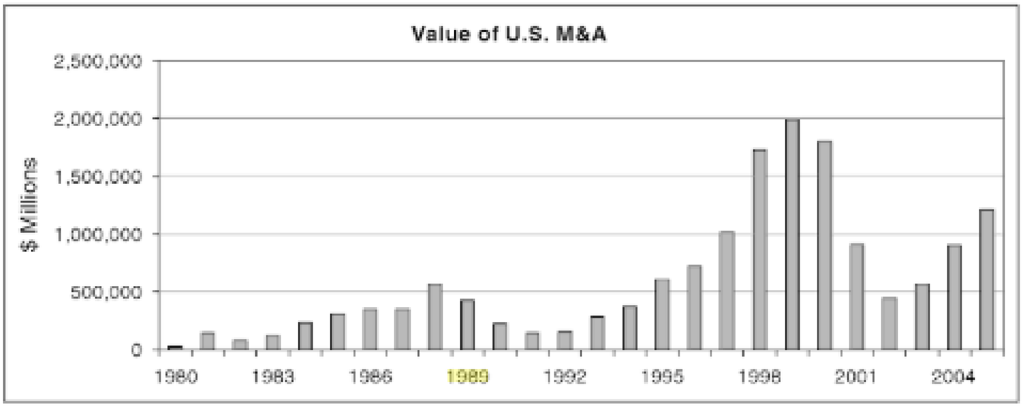


Figure 3-5 Value of Mergers and Acquisitions, 1970 – 1989

It is obvious that during the fourth merger wave (1984 – 1989), despite the fact that there is not any significant increase in the number of transactions occurred, huge amounts of dollars were spent.

3.1.5 Fifth Wave, 1992-2000

The fifth M&A wave is spotted between 1992 and 2000. Notwithstanding the 1990s' recession, the volume of transactions turned sharply positive in the early 1992. This was the age of large deals, some of them similar to the ones the history of economics witnesses during the fourth period. Some particular industries benefited cumulatively from deregulation, globalization and technological revolution which resulted in changes in industry organization (Ribeiro, 2010). More specifically, more than half of the M&A activity in a given year ''has been accounted for by five or six industries'' (Weston, 2001). The fifth wave of mergers and acquisitions reached to an end with the millennium bubble as well as scandals like that of Enron (Lipton, 2006).



(a)

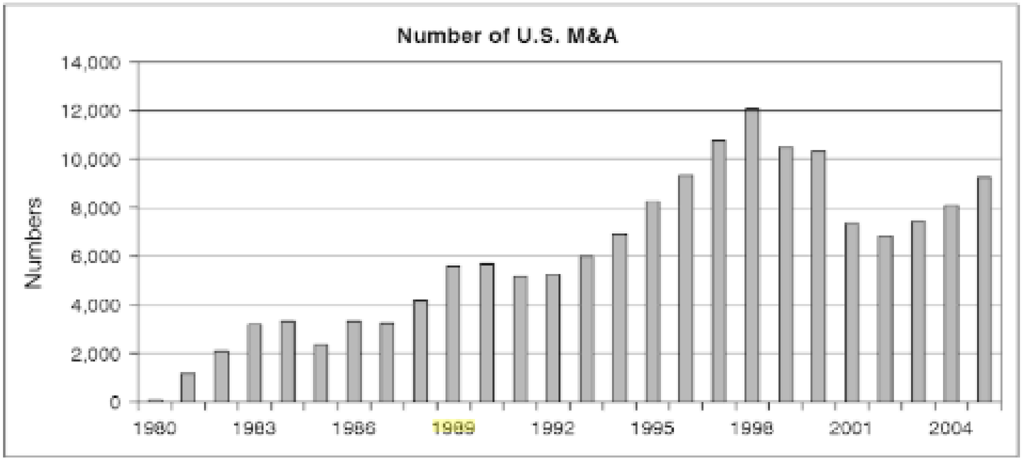


Figure 3-6 Number and Value of U.S M&A

Source: Mergerstat Review, 2009; And Thomson Securities Financial Data

3.1.6 Sixth Wave, 2004 – 2007

Financial markets during this sixth wave, were characterized by an eruption of highly leveraged buyouts and private equity investments. Subsequently, the world's biggest companies pursued their strategic objectives for achieving further expansion through mergers and acquisitions. Research has indicated that a considerably significant percentage of this period’s financing of these transactions, as well as mortgage-backed security issues, took the form of syndicated debt (i.e. debt purchased by underwriters for resale to the investing public). By 2004 M&A demand had begun to increase. This was fueled by low interest rates and rising real estate and stock markets. This era came to an end with the crisis which began in 2007 and the economy entered a recession in 2008.

In Figure 3-7 Number of Completed transactions worldwide) the reader can be provided with knowledge in regards with the global completed M&A transactions in a time span between 1985 – 2018. In this period, the sixth wave (2004 – 2007) is obvious as far as number of transactions is concerned, as well as value of completed transactions.

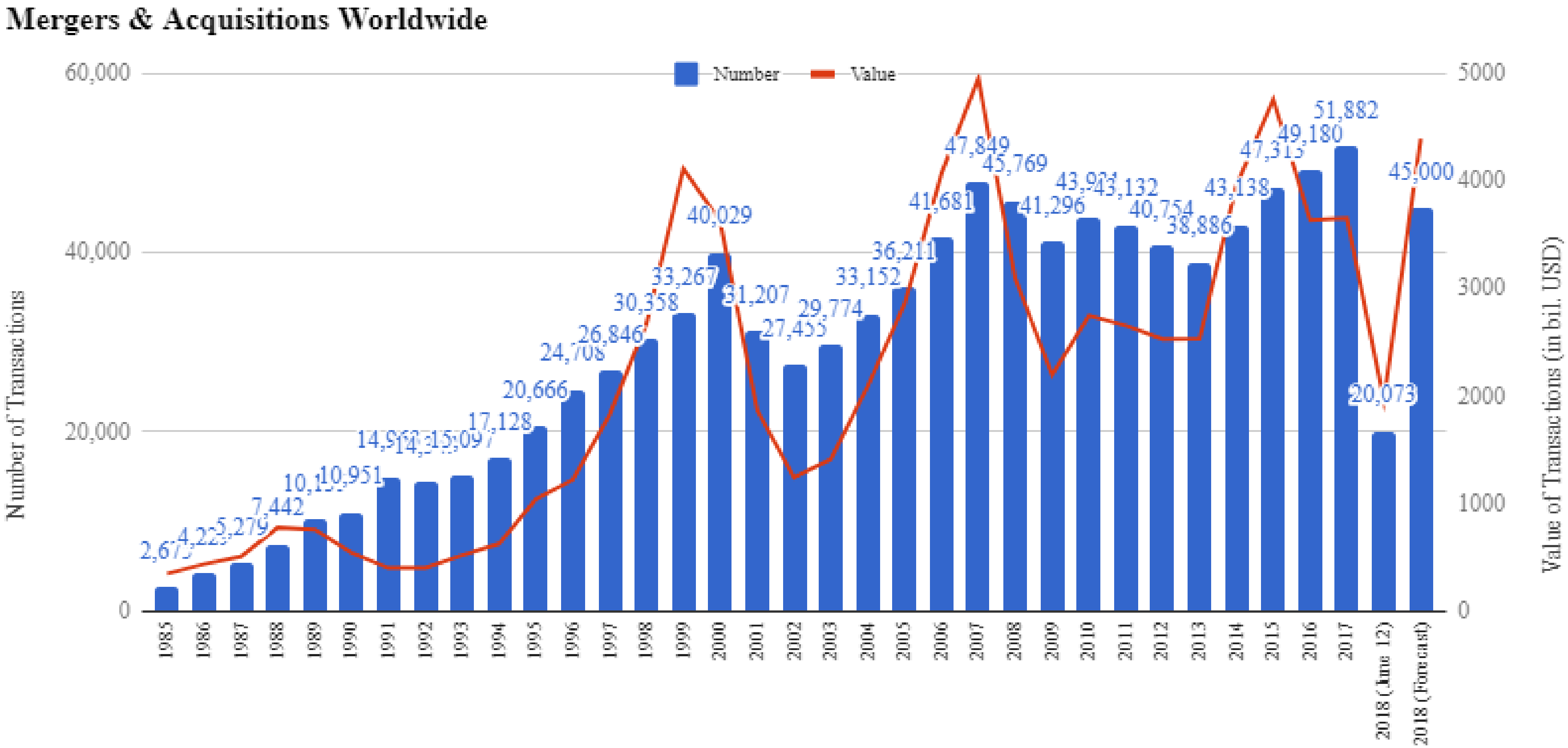


Figure 3-7 Number of Completed transactions worldwide

Source: https://imaa-institute.org/mergers-and-acquisitions-statistics/

3.2 Top 10 M&A Deals

Focusing attention on the last 30 years of M&A transactions, it is plausible to present the top of M&A deals in history. Subsequently, in order for the reader the grasp a clear perception of M&As, in the context of this dissertation, M&As will be classified in three top 10s during the last three decades. The comparison of the latter three decades will provide the reader an insight of the M&A activity, as well as their value and the gravity given by the companies which struggle to achieve their goals through such transactions. Below we see the data for the period 1990 – 1999.

Rank	*Year*	*Purchaser*	*Purchased*	*Transaction Value (in billions USD)*
1	1999	Vodafone Group	Mannesmann	202
2	1999	Pfizer	Warner-Lambert	118.8
3	1998	Exxon	Mobil	77.2
4	1998	Citicorp	Travelers Group	73
5	1999	SBCCommunications	Ameritech Corporation	63
6	1999	Vodafone Group	AirTouch Communications	60
7	1998	Bell Atlantic	GTE	53.36
8	1998	BP	Amoco	53
9	1999	QwestCommunications	US WEST	48
10	1997	Worldcom	MCI Communications	42

Table 3-5 Top M&A Deals by Value Worldwide, 1990 – 1999

Source: M&A Statistics - Worldwide, Regions, Industries & Countries". IMAA-Institute

Below we see the data for the period 2000 – 2009.

Rank	*Year*	*Purchaser*	*Purchased*	*Transaction Value (in billions USD)*
1	2000	AOL Inc.	Time Warner	165
2	2007	RFS Holdings BV	ABN Amro BV	98
3	2000	Glaxo Wellcome Plc.	SmithKline Beecham Plc.	76
4	2004	RoyalDutchPetroleum	ShellTransport&Trading Co.	75
5	2006	AT&T Inc.	BellSouth Corporation	73
6	2001	Comcast Corporation	AT&T Broadband	72
7	2009	Pfizer Inc.	Wyeth	68
8	2002	Pfizer Inc.	Pharmacia Corporation	60
9	2004	JPMorgan Chase & Co.	Bank One Corporation	59
10	2008	InBev Inc.	AnheuserBusch Companies, Inc.	52

Table 3-6 Top M&A Deals by Value Worldwide, 2000 – 2009

Source: M&A Statistics - Worldwide, Regions, Industries & Countries". IMAA-Institute

Below we see the data for the period 2010 – 2018.

Rank	*Year*	*Purchaser*	*Purchased*	*Transaction Value (in billions USD)*
1	2013	Verizon Communications	Verizon Wireless	130
2	2015	Dow Chemical	DuPont	130
3	2015	Anheuser-Busch InBev	SAB Miller	130
4	2015	Heinz	Kraft	100
5	2018	AT&T Inc.	Time Warner	85.4
6	2016	Linde AG	Praxair	85
7	2015	Charter Communications	Time Warner Cable	78.7
8	2018	The Walt Disney Company	21st Century Fox	71.3
9	2015	Actavis	Allergan, Inc	70.5
10	2015	Royal Dutch Shell	BG Group	70

Table 3-7 Top M&A Deals by Value Worldwide, 2010 – 2018

Source: M&A Statistics - Worldwide, Regions, Industries & Countries". IMAA-Institute

Based on the previous three tables, we facilitate a comparison of the top M&As in the last 3 decades pursuing the extraction of useful conclusions.

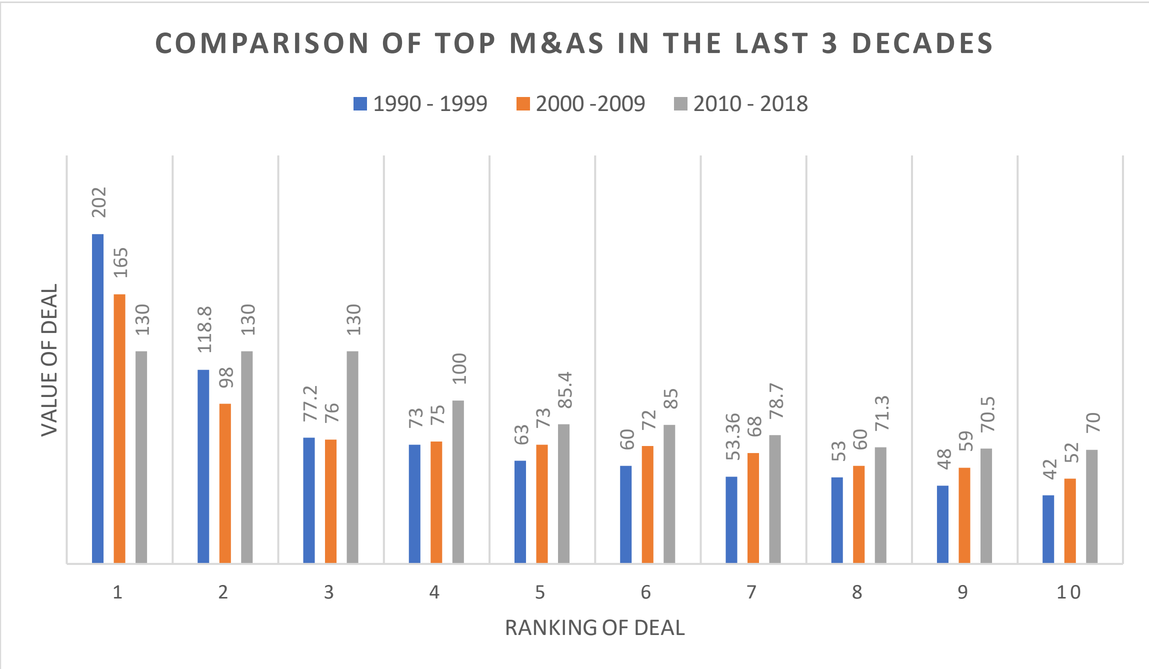


Figure 3-8 Comparison of largest M&A deals of the last 3 decades

It is obvious that during the 1990s the largest M&A deal in history is observed. However, the following M&A deals of this decade (1990s) are admittedly reduced by a big percentage. On the other hand, in the 2010s it seems that history has not yet witnessed a mega-deal, however all transactions occurred are considerably larger than the previous decades (see all grey bars being higher than the rest).

3.3 Modern M&A Data

This subchapter will focus on recent data, deals and stats as far as mergers and acquisitions are concerned.

3.3.1 Worldwide M&A Announced/Completed M&A volume

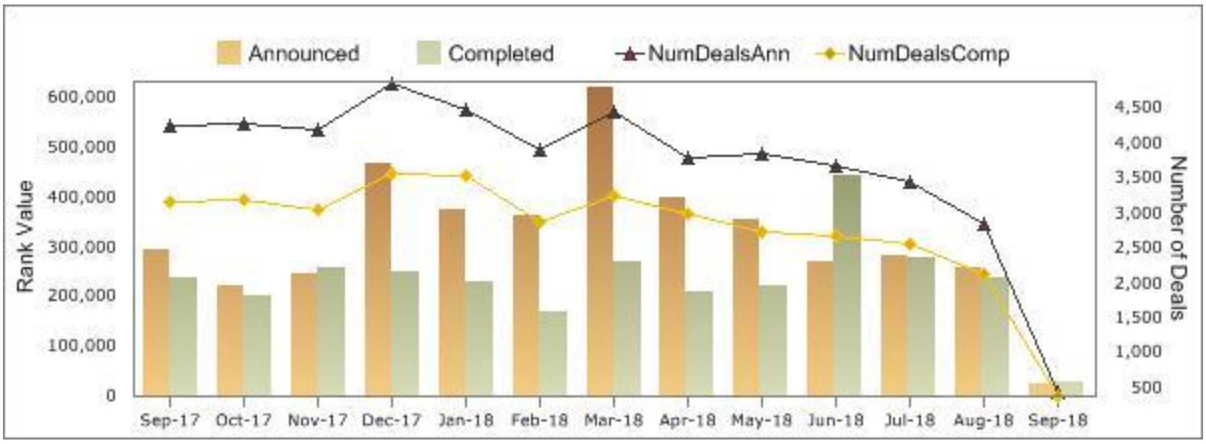


Figure 3-9 Worldwide M&A Announced/Completed M&A volume, Sep17 - Sep18

Source: Thomson Reuters

In the figure above, the reader can notice the worldwide M&As' behavior between September 17' and September 18'. One year's activity is not sufficient to extract statistically safe conclusions; however, it could be reported that there is no such trend observed throughout the last year, except for a peak during March 18'.

3.3.2 Worldwide M&A announcements, Target Region Comparison

Below we see the percentages of worldwide M&A announcements in 2017 segmented by regions.

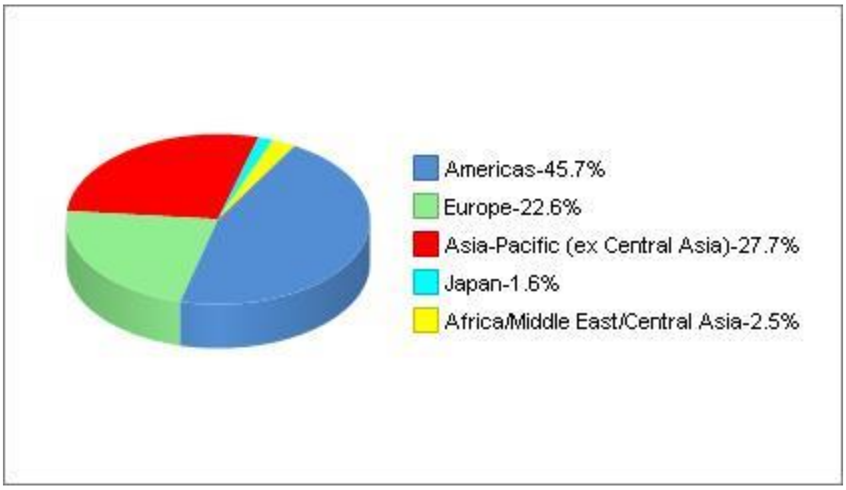


Figure 3-10 Worldwide M&A announcements, Target Region Comparison, 2017

Source: Thomson One, M&A overview

Below we see the percentages of worldwide M&A announcements in 2018 segmented by regions.

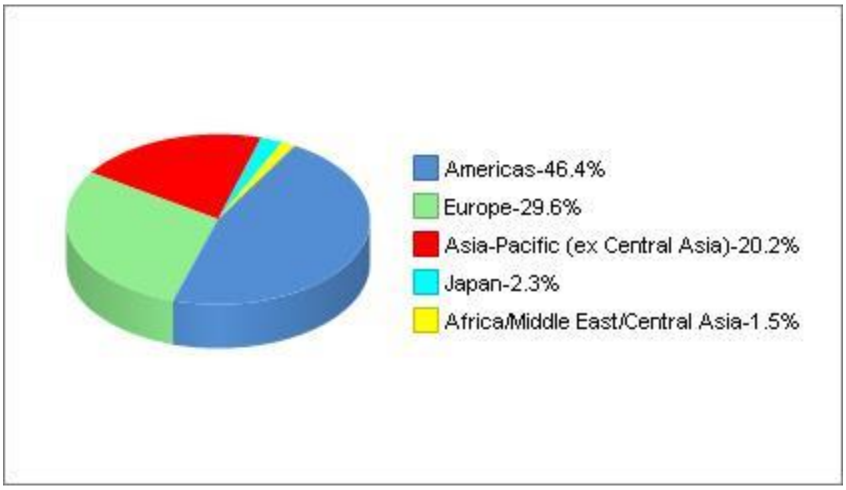


Figure 3-11 Worldwide M&A announcements, Target Region Comparison, 2018

Source: Thomson One, M&A overview

Since last year, there has been observed increased M&A activity in America and Europe region.

3.4 M&A activity in Europe Region

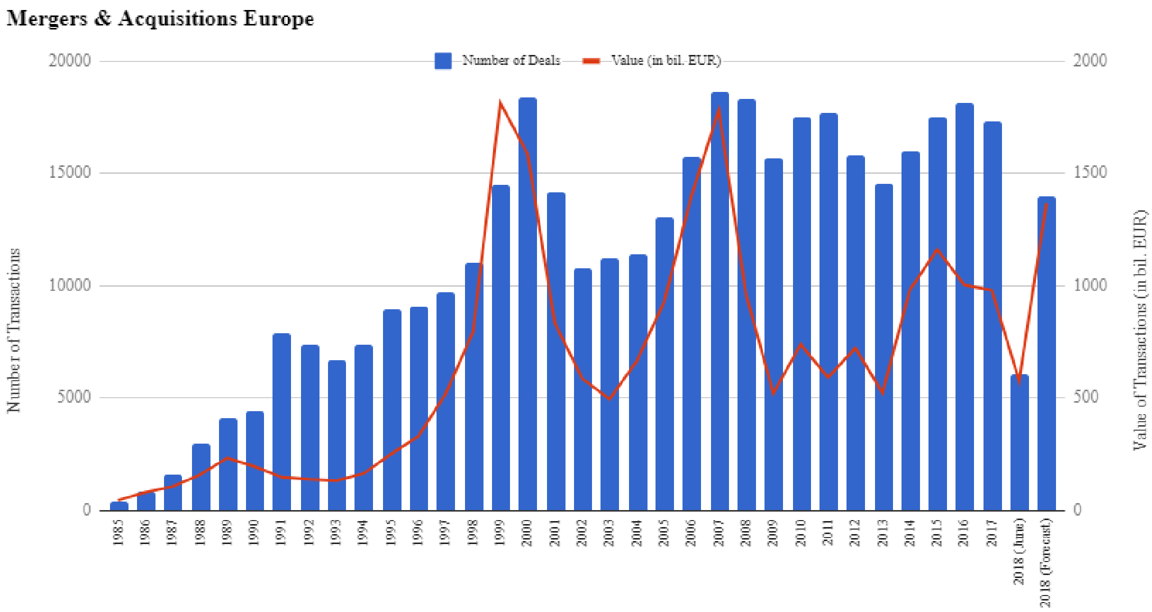


Figure 3-12 Mergers & Acquisitions Europe, Number of Transactions, Value of Transactions, 1985 – 2018

Source: https://imaa-institute.org/mergers-and-acquisitions-statistics/

In the figure above, the M&A activity in Europe region is noticed between 1985 and today.

Going deeper, the completed M&A deals in Europe are presented in the following table, with a monthly pattern for the last 3 years.

Rank Date	*Number of Deals*	*Value of Deals (in mil. Dollars)*
September 2015	922	45.827,65
October 2015	1.249	150.458,54
November 2015	1.111	75.709,43
December 2015	1.428	40.236,98
January 2016	1.186	16.039,79
February 2016	1.270	116.321,08
March 2016	1.267	35.179,78
April 2016	1.335	30.987,93
May 2016	1.254	45.413,36
June 2016	1.334	72.272,05
July 2016	1.350	64.526,45
August 2016	846	19.167,16
September 2016	1.104	53.461,37
October 2016	1.083	37.990,48
November 2016	1.092	43.059,53
December 2016	1.342	82.737,47
January 2017	1.114	62.393,74
February 2017	932	25.475,54
March 2017	1.171	58.506,81
April 2017	1.009	61.907,12
May 2017	1.150	48.340,52
June 2017	1.277	77.926,18
July 2017	1.241	60.344,66
August 2017	841	23.404,24
September 2017	1.030	44.331,08
October 2017	1.109	47.253,44
November 2017	1.038	33.480,61
December 2017	1.135	57.339,94
January 2018	1.041	42.623,74
February 2018	898	53.164,87
March 2018	956	41.192,34
April 2018	942	33.769,41
May 2018	887	29.684,66
June 2018	791	31.790,86
July 2018	703	22.925,19
August 2018	416	5.361,85
September 2018	72	436,17

Table 3-8 Monthly Transactions Europe, Number of Deals, Value of Deals, Sept15 - Sep18

Source: Thomson One, M&As

Based on Table 3-8 we project the following figure in order to identify potential existing trends in regards with the number of deals and their value, on a monthly basis from September 2015 to September 2018.

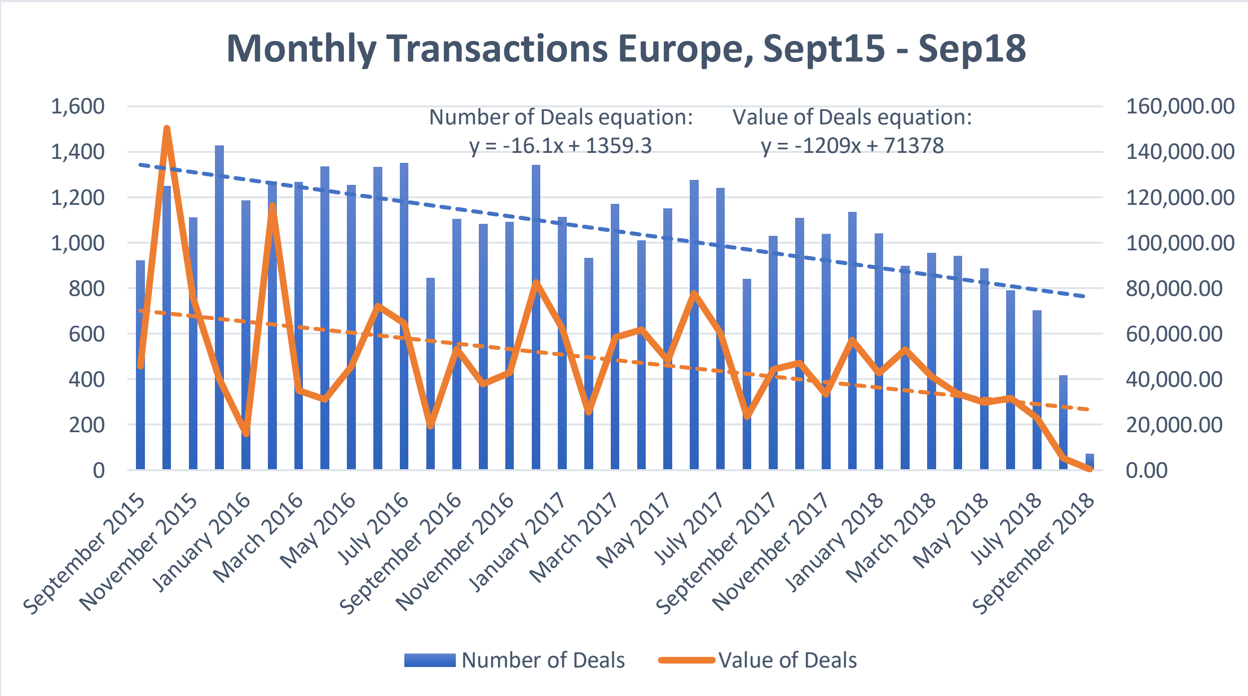


Figure 3-13 Monthly Transactions Europe, Number of Deals, Value of Deals, Sept15 - Sep18

Based on the projection of the equations in regards with the Value of Deals, Number of Deals we can conclude that the negative slope observed (in the equations) leads to poor future estimates as far as M&A activity in Europe is concerned. More specifically, the interpretation indicates that in both equations when X increases, Y decreases. We notice a 16.1 decrease in the number of deals, as well as a 1209 (in million) decrease in the value of deals month by month. However, history has taught us that M&A waves always happened after a period of recession. Consequently, future can be fascinating.

3.5 Research Gap

Below we notice the unemployment Rate in Europe in the period between 2012 – 2018.

Unemployment Rate in Europe, 2012 - 2018

Years	*Total (%)*	*Male (%)*	*Female (%)*
2012	10.4	10.4	10.5
2013	10.8	10.8	10.9
2014	10.2	10.1	10.3
2015	9.4	9.3	9.5
2016	8.5	8.4	8.7
2017	7.6	7.4	7.9
2018	6.9	6.8	7.1

Table 3-9 Unemployment Rate in Europe 28, Total - Male – Female, 2012 - 2018

Source: International Labor Organization, www.ilo.org

Below we notice the number of confirmed mergers and acquisitions in Europe between 2012 – 2018.

Number of M&A deals, Europe Region, 2012-2018

Years	*Number of deals*
2012	15801
2013	14536
2014	15971
2015	17520
2016	18100
2017	17337
2018	20088[1]

Table 3-10 Number of M&A deals in Europe, 2012 - 2018

Source: Institute for Mergers, Acquisitions and Alliances (IMAA), https://imaa-institute.org

By projecting the correlation between Number of Deals and Unemployment Rate in Europe in the excel we conclude to the following table:

[1] Year 2018 is forecasted

Relationship	*Coefficient of Correlation (ρ)*
Number of Deals – Total Unemployment Rate	-0,66599
Number of Deals – Male Unemployment Rate	-0,64864
Number of Deals – Female Unemployment Rate	-0,68249

Table 3-11 Coefficient of Correlation between Number of Deals and Unemployment Rate in Europe

The interpretation of the table above indicates that there is relation between Number of M&A deals and Unemployment relations. More specifically, it is interpreted as a moderate to strong negative relationship. That creates a research gap concerning the influence of M&A deals to the unemployment rates, which has not yet been enlightened at a great extent. It is known that corporate restructurings that occur (as a result of mergers and acquisitions), are often the reason for redundancies. Subsequently, one could expect a positive relationship between the deals and the unemployment rates (when deals increase, so do unemployment rates). However, the table reflects the exact opposite. This fact expresses an interesting topic in theory that can be developed to define the level of influence of mergers and acquisitions to redundancies and employment relations. Potentially, the acknowledgement of the correlation could provide safer estimations of future unemployment rates. Safer estimations could be of significant use to governments for developing retrospective remedies to cease and constrain unemployment relations, as well as secure economic and political stability.

4. Case Study: Kraft Heinz Merger

4.1 Kraft Heinz: The Company

The Kraft Heinz is an American multinational company formed by the merger of Kraft Foods Group and Heinz (which was owned by 3G Capital and Berkshire Hathaway) on July 2, 2015. The merger was agreed by the boards of both companies, with approval by shareholders and regulatory authorities. This merger announcement sealed the formation of the fifth largest food and beverage company in the world and the third largest in America. Kraft Heinz is headquartered in both Pittsburgh and Chicago. In 2017, the company reported a decreased revenue of US$ 26.232 billion and it currently occupies an approximate number of 39,000 employees. Kraft Heinz is a public company, trading in NASDAQ as KHC.

Financial analysts depict Kraft Heinz as a multinational company which pursues growth through the confirmation of mergers and acquisitions. It is only recently (February 2017) when Kraft Heinz made a surprise US$ 143 billion offer for Unilever in a bid to establish a consumer goods giant. According to Thomson Reuter data, this deal would have been one of the largest in a global scale and the largest of a UK-based company. Eventually, the offer had been abandoned soon after UK Prime Minister Theresa May ordered a scrutiny of the deal.

In the context of this dissertation, Kraft Heinz demonstrates a typical example of an organization which pursues growth and the creation of synergies by applying an aggressive acquiring policy. Although the organization does not perform as well as it used to, it seems that according to many analysts they are still after the attempt of mega-deals (Badkar, 2018). What is important at this stage, is the examination of how theory of this thesis is applied in the case study of Kraft Heinz. It is interesting how the consolidated company has been affected throughout these last three years on a managerial, strategic and financial basis.

4.2 Kraft Heinz performance

4.2.1 Kraft Heinz: Financial Analysis

In the context of this chapter it is logical to consider the performance of Kraft and Heinz prior to the merger, compared with the performance of the consolidated company. It is plausible to illustrate how the current situation of Kraft Heinz is depicted through some financial ratios and numbers. Moreover, the consolidated Kraft Heinz's data will be compared with those of Kraft's before the merger in 2015.

4.2.1.1 Financial Analysis: Revenue

Below, the *total revenue* of the companies is presented prior and after the merger.

	2014	2015	2016	2017
Kraft	18.218			
Heinz	10.92			
Kraft Heinz		18.338	26.487	26.232

Table 4-1 Total Revenue (in billions) Kraft - Heinz - Kraft Heinz, 2014 – 2018

Source: macrotrends.net

It is clear that there is not significant difference between Kraft's revenue in 2014 and KraftHeinz's in 2015. On the other hand, the consolidated company's revenue in 2015 creates a major difference in relative Heinz's revenue of 2014. Between years 2015 and 2016 we can notice 30,7% increase in KraftHeinz's revenue. This increase is justified by theory according to which when a merger or acquisition takes place, there is a short-term performance increase. Unfortunately for Kraft Heinz, theory (as aforementioned in this thesis) also indicates that in most of the cases that initial peak is followed by a period of recession that is depicted in the table above. Although it may seem that revenue has not been decreased by a big percentage, in fact Kraft Heinz has witnessed a great reduction in sales. However, what is called ''repricing'' is what helped the company not depict that recession in its annual revenue (Badkar, 2018).

4.2.1.2 Financial Analysis: Stock Price

Figure 4-1Kraft Heinz (KFC) stock price history after the merger. Starting price - Peak - Latest Price

Source: www.google.com, Kraft Heinz Share Price History

The situation in every organization is always reflected by the performance or their stock price accordingly. In the Figure above, it is noticeable that Kraft Heinz's price stock has an increasing behavior during the early stages after the merger. More particularly it reaches a peak on the 17th of February 2017. This peak is observed right after the rejected mega-deal between Kraft Heinz and Unilever. However, since then a huge downhill can be clearly noticed in the behavior of Kraft Heinz's stock market price.

Dividend Yield is a financial ratio that indicates how much a company pays out in dividends each year relative to its share price.

$$Dividend\ Yield = \frac{Annual\ Dividends\ per\ share}{Price\ per\ share}$$

Year	2015	2016	2017
Dividend Yield	3.2%	2.9%	3.7%

Table 4-2 Dividend Yield, Kraft Heinz, 2015 – 2017

Source: Thomson Reuters

Note that Kraft Heinz merger was completed in 2015 and consequently there is not prior information in regards with the dividend yields.

Year	2012	2013	2014
Dividend Yield	4.5%	3.9%	3.4%

Table 4-3 Dividend Yield, Kraft, 2012 – 2014

Source: Thomson Reuters

It is noticeable that the dividends as percentages appear to be less in the consolidated company.

Price to Earnings ratio (P/E Ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings. The price earnings ratio is also sometimes known as the price multiple or the earnings multiple.

$$Price\ to\ Earnings = \frac{Market\ Value\ per\ Share}{Earnings\ per\ Share}$$

Year	2016	2017	2018
P/E	26.3	21.9	16.4

Table 4-4 Price to earnings, Kraft Heinz, 2016 – 2018

Source: Thomson Reuters

As previously mentioned, there are no data prior to 2015 as it was the year that the merger between Kraft and Heinz was completed. However, the P/E ratio matrix is presented below prior to the merger.

Year	2012	2013	2014
P/E	14.2	19.89	19.52

Table 4-5 Price to earnings, Kraft, 2012 – 2014

Source: Thomson Reuters

The figure above provides food for thought. We can notice from both matrixes that the P/E ratio has increased after the year of the merger; from then on, it is depressed. Recently, the company has been underperforming as aforementioned. Subsequently, that is reflected in future forecasts of the P/E ratio as indicated by the figure in the next page.

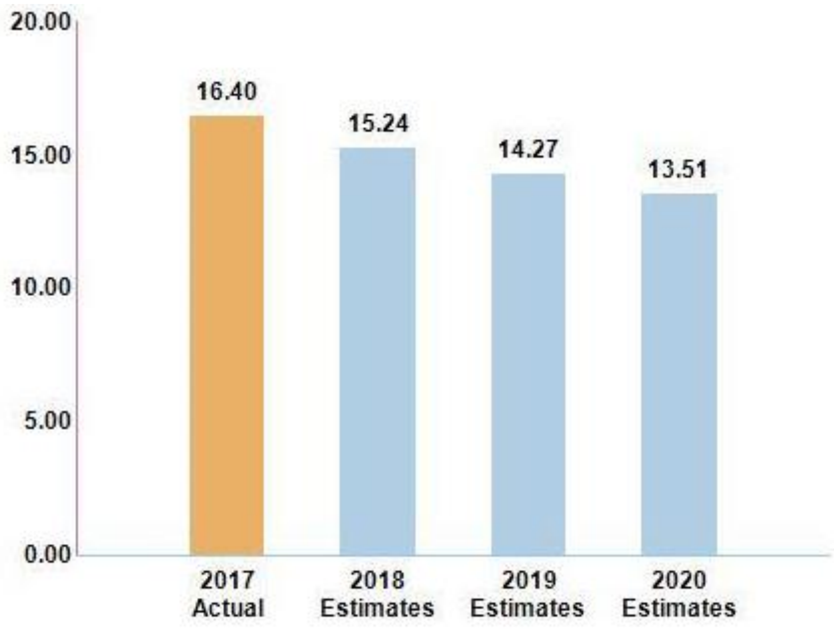


Figure 4-2Price to earnings Forecast, Kraft Heinz, 2017 – 2020

Source: Nasdaq.com

Market capitalization refers to the total dollar market value of a company's outstanding shares.

$$Market\ Capitalization = Shares\ Outstanding * Stock\ Price$$

Year	2015	2016	2017	Current
Market Capitalization	88.29 bn	106.29 bn	94.75 bn	74.25 bn

Table 4-6 Market Capitalization, Kraft Heinz, 2015 – 2018

Source: ycharts.com

Evidently, we can notice the recession that the company is currently experiencing.

4.1.2.3 Financial Analysis: Financial Ratios

Return on Equity (ROE) is also known as ''return on net worth''. It is a measure of profitability which calculates how many dollars of profit a company generates with the money that shareholders have invested. ROE can also be considered as an efficient measure and demonstrates the ability of a company to convert capital into profit. ROE of the consolidated company after 2015 is presented in the next page.

Year	2015	2016	2017
ROE	-	6.00	17.83

Table 4-7 Return on equity, Kraft Heinz, 2015 - 2017

Source: Morningstar.com

It is sensible though to compare it with the Kraft's ROE prior to the merger.

Year	2011	2012	2013	2014
ROE	11.08	16.23	61.72	21.73

Table 4-8 Return on equity, Kraft, 2011 - 2014

Source: Morningstar.com

Apparently, the ROE has been decreased for Kraft Heinz. The obvious ROE decrease reveals Kraft Heinz's decreasing ability to generate profit without needing as much capital. It additionally indicates how well or bad an organization deploys the shareholder's capital.

Return on Assets (ROA) is an indicator of how profitable a company is relative to its total assets. Additionally, it reflects the level of an organization's efficiency as to how it leverages management in order to generate earnings from its assets. Below it is presented the Kraft Heinz's ROA after the merger.

Year	2015	2016	2017
ROA	-	2.84	9.14

Table 4-9 Return on assets, Kraft Heinz, 2015 - 2017

Source: Morningstar.com

It is logical to compare the consolidated company's figures with those prior to the merger.

Year	2011	2012	2013	2014
ROA	8.54	7.30	11.63	4.5

Table 4-10 Return on assets, Kraft, 2011 - 2014

Source: Morningstar.com

The noticeable decrease in the general figures of ROA before and after the merger indicate that the company is not making enough income form the use of its assets. Nevertheless, in some cases, a low percentage return may be acceptable. However, in the context of this dissertation it is not intended to further analyze such financial ratios.

Admittedly, Kraft Heinz was expected to break the rule according to which almost all mergers and acquisitions fail to result in the desired outcome of growth. Nonetheless, in February 2018 Mr. Warren Buffet announces his retirement from the board of Kraft Heinz. As reported, that was due to his inability to keep travelling. Regardless of the credibility of the reason to his retirement, Mr. Warren Buffet's depicted a milestone for the consolidated company. In essence, it seems like the company is not able to stand on its feet since then, as a constant downward of its stock price is observed. Subsequently, the case of Kraft Heinz falls within the majority of the mergers and acquisitions. With all this information in mind a plausible question is: If another deal is not imminent, then what is the next step of growth for Kraft Heinz company?

4.2.2 Kraft Heinz: Management Analysis

As theory cites, mergers and acquisitions are always a challenging task. Companies becoming multinational or multinational companies which expand must be successful at integrating the merged or acquired organizations on a managerial level. In the case of Kraft Heinz employee satisfaction cannot be ignored. Financial Times and Forbes cannot ignore it. According to Glassdoor.com[2] the employee satisfaction at Kraft Heinz is lower than anyone else as far as its competitors are concerned.

	Recommend to a friend	Approve of CEO	Employee Reviews	Total Rate
Kraft Heinz	44%	47%	2,838	2.8/5
Unilever	84%	95%	3,337	4/5
Nestle	75%	54%	2,269	3.7/5
Mondelez	58%	87%	1,566	3.3/5

Table 4-11 Employees Satisfaction Index

Source: glassdoor.com

Kraft Heinz responded to this figure as ''low ratings stem from its transformation since the 2015 merger''. Nonetheless, P&G which has been through difficult years of business underperformance tops the list for employees' satisfaction, culture and values. It is plausible to question the accountability of such figures in an internet site as it may attract a disproportionate amount of disgruntled people with venomous commends. Despite the fact

[2] Glassdoor is a recognized website, now entering its second decade, which allows people share the pros and cons of their employers and then rate them.

that as much as flawed these internet sites can be, an increasing number of professional consults them (Daneshkhu, 2018). Subsequently, we reach the state where as reported by Forbes, only 30% of MBA interns accept their summer offers (Raath, 2018). Accordingly, such an image of an organization to the outside world can impose devastating effects in regards with its future performance if it cannot attract a suitable and skilled workforce pool as well as have impact on its current employees' performance due to their dissatisfaction.

On the other hand, 3G Capital which is the Brazilian equity firm that backed up the huge deal of the merger is known for ruthless cost-cutting. Mr. Lemann, 3G's owner known for his practices inspired insecurities in Kraft Heinz's top executives after the announcement of merger. When the deal had been closed, 12 of 13 Kraft's top executives where gone, replaced by people who had previously worked with other 3G owned companies. In this sense, it is plausible to notice such ratings online. Kraft Heinz reflects its working environment's uncertainty via increasing turnover rates. Evidently, it is quite telling that the company preferred not to share its turnover rates in its February 2018 presentation in the section called ''Recruit, Develop and Align our People''.

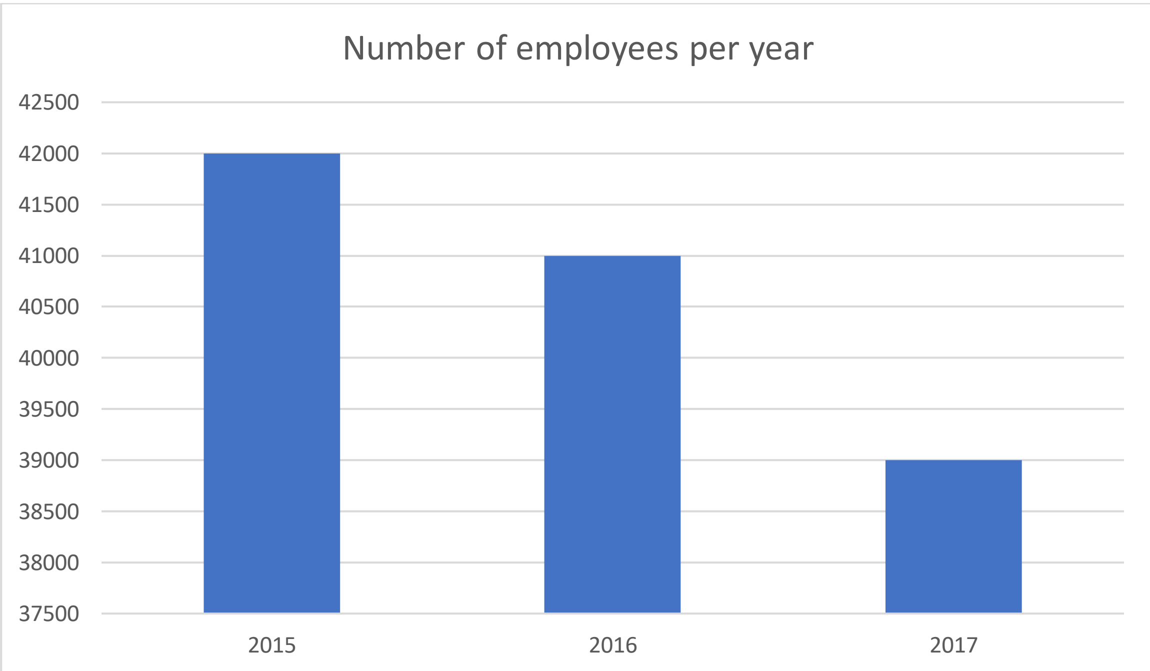


Figure 4-3 Kraft Heinz: Number of employees, 2015-2017

Source: statista.com

Recapitulating the theory and more specifically the motives, it makes sense if we compare which of them have been met. Although Kraft Heinz has been going through difficult times recently, it has indeed achieved growth via their merger. Inorganic growth was accomplished by expanding in new market and new customer streams. Theoretically, Kraft Heinz merger managed both financial and operating synergies. They reduced the cost of capital as well as realized financial economies of scale with larger internally generated funds. Moreover, the merger gave them the opportunity to spread fixed costs. Naturally, the combination of a specific set of skills of the consolidated company assisted in the creation of economies of scope. Nevertheless, evidently it all comes to effective management to transform these opportunities to success. Although, the confirmation of the deal between Kraft and Heinz seemed to constitute a milestone of future success to the organization, reality was proved to be different. Numbers previously presented suggest that the organization has failed to create value. This management’s lack of ability can be the reason why, as reported, Kraft Heinz is after big future deals. At this point, one thing that is sure, is that Kraft Heinz lies in a difficult situation and reports from Forbes and Financial Times commending on its employees’ dissatisfaction burden the company and its reputation.

5. Conclusions

This dissertation can deduce several conclusions. Mergers and acquisitions are understood as a general global trend. They are based on multiple economic and social factors and are associated with a global corporate restructuring across industries. Mergers and acquisitions constitute the primary way via which organizations pursue growth, as well as provide returns to owners and investors. Moreover, they are considered to be a vital part of any healthy economy.

Mergers and acquisitions can be investigated through different aspects. From the buyer's point of view, strategic motives to undertake M&A deals are mainly related to attempt quick growth (in contrast with slower growth via leverage of their own resources) and to get access to intangible assets, know-how, human – structural – customer capital. Additionally, M&A deals may derive from organizations' decision to achieve synergies, adjust to changes, as well as deal with mismanagement problems, tax savings and so on. From the seller's point of view, the strategic motives to sell the business can occasionally reflect an organization's attempt to convert equity to cash, growth maximization, owner's retirement or lack of access to capital.

Despite the fact that all motives speculate general growth, theory cites that the majority of such transactions fails to fulfill their genuine purposes. The case study of this dissertation researched the merger between Kraft and Heinz in 2015. As in almost all cases, it was a promising transaction with great prospects. However, the end of year 2018 finds the multinational company in a struggling position. Instead of achieving growth, the organization is coping with a big recession caused by lower than expected sales globally, as well as the retirement of one of their leadership figures, Mr. Warren Buffet. The reasons underlying the failure of mergers and acquisitions are not consistent and they can vary.

Furthermore, this dissertation identified the research gap according to which the correlation regression analysis of the number of M&A deals – unemployment rate, has not been enlightened yet. We need future research not only to address the M&A effects on unemployment rates, but also to define the level of impact of the latter.

To sum up, it is clear that mergers and acquisitions – in their vast majority – do not have the expected outcomes. On the contrary, organizations can proceed to actions in order to at least minimize the possibilities of failure. It is recommended that organizations facilitate a thorough and extensive research before an official offer. The buyer organization is urged to facilitate a multidisciplinary research over the target organization, not only through background checks, but also through discussions with the employees which will provide a clear picture of the company. Furthermore, they can get access to the streams of the company, identify what the customers' attitude is towards the target organization and research its financial books at least of the last five years in order to identify potential abnormalities or issues with the federal tax regulations. This could alleviate unpredicted future problems. Additionally, they could conduct research operations-wise. By having utterly vetted-comprehended procedures and policies, they can prevent the emergence of possible and even unnecessary problems in the future. However, above all it is of utmost importance to transit to all involved parties why the merger or acquisitions is desirable and advantageous or in their best interest, as well as merge the team of employees. Transition will surely be hard. Nobody can guarantee M&A success, but one thing is sure; a careful investigation-management-execution of a deal holds better chances of successfulness.

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Declaration of Authorship

I hereby declare that this thesis contains no material which has been accepted for the award of any other degree or diploma at any university or equivalent institution and that, to the best of my knowledge and belief, this thesis contains no material previously published or written by another person, except where due reference is made in the text of the thesis.

The ideas, development and writing up of all the papers in the thesis were the sole responsibility of myself, the candidate; the only unacknowledged help I received was by my supervisor. I also did not use outside help to formulate parts of this thesis.

Date, Signature